

# Funding the Future

## Charging national insurance at 12% on all employees, in...

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I have been asked how much additional national insurance might be due in the UK as a whole in each year if all earnings were subject to the current 12% national insurance rate due by employees on all earnings up to £50,284 in the tax year 2021/22, above which sum just 2% is due at present. I have estimated that sum to be at least £14 billion, and in this blog explain the workings.

According to HMRC[\[1\]](#) the following income tax and national insurance has been paid over the last three complete tax years, with the income tax paid by PAYE total being included in the total income tax figure:

Tax year	Total income tax	PAYE income tax	Total national insurance
	£bn	£bn	£bn
2020/21	195.8	167	142.7
2019/20	193.2	164.8	142.9
2018/19	191.0	161.9	136.8

The latest year for which reliable tax distribution statistics are available is 2018/19[\[2\]](#). HMRC statistics table 3.6 for that year shows the following data:

3.6 Profit, employment and pension income, tax year 2018 to 2019						
Taxpayers only						
Range of total income (lower limit) £	Self-employment income		Employment income			
	No. of individuals	Amount	Mean	No. of individuals	Amount	Mean
11,850	218	2,110	9,650	797	8,900	11,200
13,000	325	3,330	10,200	1,600	20,300	12,700
15,000	634	7,700	12,200	4,490	72,000	16,000
20,000	829	13,400	16,200	6,930	155,000	22,400
30,000	677	14,800	21,800	6,650	223,000	33,500
50,000	173	5,000	28,900	1,880	95,600	50,700
70,000	97	4,140	42,700	955	66,500	69,700
100,000	72	4,850	67,000	448	44,600	99,700
150,000	33	3,220	96,200	153	21,700	142,000
200,000	26	3,760	146,000	106	21,000	197,000
300,000	16	4,090	248,000	59	17,800	304,000
500,000	12	5,680	484,000	30	15,500	516,000
1,000,000	7	Page 1/3	40,000	15	24,100	1,610,000
All ranges	3,120	84,600	27,100	24,100	786,000	32,600

The current analysis applies to employment income alone, with self-employment being largely ignored.

In 2018/19 the approximate annual national insurance exemption (and I have to approximate here because of the way in which NIC works) was £8,424 a year [3]. The threshold at which the rate fell to 2% was £46,384 a year. Using this data the following can be estimated:

3.6																	
Range of total income (lower limit £)		Employment income															
				No. of individuals - thousands	Amount of income £million	Mean £	Average NIC exemption £	Mean NIC chargeable income £	Personal NIC rate to approx. £8,424 - %	Personal NIC rate on over £46,384 - %	Average NIC due £	Average NIC as a % of income	NIC due on group £million	Due if all at 12% £	NIC due on group if all at 12% £	Average NIC as a % of income	Difference
11,800		707		4,900	11,200	8,424	2,798	12	2	333	3.0%	268	333	260	3.0%	0	
13,000		1,600		21,300	12,700	8,424	4,226	12	2	513	4.0%	821	513	621	4.0%	0	
18,000		4,400		18,000	18,000	8,424	7,509	12	2	987	4.0%	1,000	987	1,040	5.0%	0	
26,000		4,908		155,000	22,400	8,424	13,076	12	2	1,677	7.5%	11,622	1,677	11,652	7.5%	0	
36,000		6,658		223,000	33,500	8,424	25,026	12	2	3,089	9.0%	20,011	3,089	20,011	9.0%	0	
46,000		1,600		46,000	46,000	8,424	42,298	12	2	4,426	10.5%	4,426	4,426	4,437	10.5%	1	
70,000		958		68,000	68,000	8,424	81,276	12	2	4,853	7.5%	4,038	7,353	7,032	10.5%	2,368	
106,000		44,800		98,700	8,424	97,276	12	2	6,483	5.5%	2,443	18,953	4,907	11.0%	2,464		
150,000		108		142,000	142,000	8,424	133,249	12	2	8,249	4.0%	14,229	8,249	13,249	11.0%	0	
200,000		108		21,900	197,000	8,424	180,576	12	2	7,399	3.6%	764	22,628	2,399	11.5%	1,014	
300,000		58		17,800	304,000	8,424	295,676	12	2	8,939	3.1%	963	36,408	2,093	11.7%	1,530	
450,000		58		25,000	314,000	8,424	327,326	12	2	13,770	2.2%	413	63,823	1,123	11.4%	1,441	
1,000,000		18		24,900	1,010,000	8,424	1,010,076	12	2	35,699	2.2%	538	192,598	2,885	11.6%	2,348	

Source: Survey of Personal Incomes (SPI) tax year 2018 to 2019  
Table updated March 2021

[A larger version of this image can be found here.](#)

There are approximations in here: I accept that. None is, I think, material. Some paying NIC are not in the calculation, for example; they do not have taxable income. The consequence of multiple employments is ignored. It is assumed income is spread evenly during a year. The income means noted can only be approximations, but have been used to calculate NIC charges for bands and that can only be an approximation. It is assumed that there is no behavioural change, but I am not sure there would be, so do not think that is significant.

Overall, the total estimated NIC due for employees at £55.9 billion would be significantly lower than that due by employers, which would be payable at 13.8% across all income levels. That liability is likely to be close to £80 billion. The two together allow for less than £10 billion of NIC to be paid by the self-employed: this is likely given the lower rates at which they make payment and their average much lower incomes than employees. The overall calculations make sense as a result: the estimate is credible.

As a consequence, some conclusions can be drawn.

The first is that whilst NIC looks to be mildly progressive as a result of the basic income exemption to the threshold at which it stops being charged at 12% it rapidly becomes regressive thereafter and as such can be considered regressive overall, especially when other exceptions from the charge are considered. Anyone claiming otherwise is not properly representing the data.

Second, if the cap on income at which the 12% employee NIC rate was due was

removed approximately £14 billion more in NIC could be collected a year.

Third, if you only wanted £10 billion more you could remove the cap for those earning over £100,000 if you charged them at 12% on all their income.

Fourth, if you only wanted £5 billion more you could remove the cap for those earning over £300,000 if you charged them at 12% on all their income.

I stress the numbers are approximate: HM Treasury could clearly finesse them, but within the parameters of published data they provide fair approximations in my opinion.

What the data does show is that the capacity to charge the highest income earners to more national insurance is readily available if sums of up to £10 billion a year are required to pay for additional social care. In addition, there need be no additional charge on those earning less than £50,000 a year.

Given that the government must know this the question to ask is why are they charging additional NIC right across the income range instead of making the charge a progressive tax, as it should be, across all income ranges, which would more than meet their income needs?

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## Notes

[1]

<https://www.gov.uk/government/statistics/hmrc-tax-and-nics-receipts-for-the-uk>

[2] <https://www.gov.uk/government/collections/personal-income-by-tax-year>

[3]

<https://www.gov.uk/government/publications/rates-and-allowances-national-insurance-contributions/rates-and-allowances-national-insurance-contributions>